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Indonesia

Solid Wood Products

Annual

2002

Approved by:

Chris Rittgers

U.S. Embassy, Jakarta

Prepared by:

Niniek S. Alam/Titi Rahayu

Report Highlights:

Facing high overhead costs, an unpredictable policy and institutional backdrop, and a shortage of raw materials, Indonesia's plywood output is forecast to continue declining in the near term. As forest resources continue to deteriorate and illegal logging persists, GOI has taken several steps to enhance the regulatory environment governing forest resource management, including a ban on log exports and mandatory certification of sustainable forest practices. Nonetheless, these policy tools will need to be implemented effectively to have any practical impact.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

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SECTION I. SITUATION AND OUTLOOK

The GOI has taken a number of steps to curb illegal logging and the continued deterioration of forest resources. In addition to a ban on log exports, these steps include certification of sustainable forest management practices as a requirement for obtaining and/or extending forest concessions. In addition, the maximum annual allowable cut on production forest area is to be reduced about 50 percent in 2003, with expectation for further cuts in the future. While questions remain as to whether these measures can be effectively implemented, this more stringent policy and regulatory environment suggests that Indonesia's forest product harvest and exports will continue to decline in the next three to five years. Nonetheless, the plywood sector is taking steps to ensure that their industry remains viable, including considering imports of raw materials. In addition, manufacturers continue to focus on making value-added veneer, and the furniture industry continues to develop. It is in these areas where opportunities exist for American forest products, particularly logs and/or veneer of temperate hardwoods such as oak, cherry and birch.

SECTION II. STATISTICAL TABLES

Table 1: Strategic Indicator: Forest Area (million hectares/million cum)

	CY 2001	CY2002	CY2003
Country: Indonesia Report Year: 2002	Previous Calendar Year	Current Calendar Year	Following Calendar Year
Total Land Area	192.73	192.73	192.7
Total Forest Area	146.3	146.3	146.3
--of which, Commercial	99.5	99.5	99.5
----of commercial, tropical hardwood			
----of commercial, temperate hardwood			
----of commercial, softwood	2.8	2.8	2.8
--of forest area, non-commercial	47.7	47.7	47.7
Forest Type			
--Of which, virgin			
--Of which, plantation	2.8	2.8	2.8
--Of which, other commercial (regrowth)			
Forest Ownership			
--Nationally owned and no commercial access	48.7	48.7	48.7
--Nationally owned, commercial logging permitted	99.5	99.5	99.5
--Other publicly owned land, no commercial access	n/a	n/a	n/a
--Other publicly owned, logging permitted	n/a	n/a	n/a
--privately owned commercial forest	n/a	n/a	n/a
Total Volume of Standing Timber			
--Of which, Commercial Timber	n/a	n/a	n/a
Annual Timber Removal 1/	n/a	n/a	n/a
Annual Timber Growth Rate			
Annual Allowable Cut	18.0	12.6	6.4

1/ If removals exceeds growth rate, analyze impact in text.
Source: various sources, government and industry.
Note: *) open to commercial exploitation, includes concessions.
**) equal to pulp timber estate.
***) all commercial and non-commercial forest areas are nationally owned, rented to private concessions.
****) concession and community forest.

Table 2: Strategic Indicator: Forest Product Tariffs and Taxes (percent)

Country: Indonesia Report Year: 2002	Product Description 1/	Tariff Current Year	Tariff Following Year	Other Import Taxes/Fees	Total Cost of Import	Export Tax
4401	Fuel Wood	0	0	10	10	none
4403	Wood in rough	0	0	10	10	15
4404	Poles/piles	5	5	10	15	15
4405	Wood/Wood Flour	5	5	10	15	none
4406	Rail sleepers	5	5	10	15	15
4407	Lumber, sawn, lengthwise	0-5	0	10	10-15	15
4407.29.110/120/130		5	0	10	15	
4407.29.210/220/230		5	0	10	15	
4407.91.100		5	0	10	15	
4407.99.999		5	5	10	15	none
4408	Veneer/plywood	5	5	10	15	15
4409	Lumber, moulded and rounded	0	0	10	10	none
4410	Particle board	5	5	10	15	none
4411	Fibreboard of wood	5	5	10	15	none
4411.11.000		5	5	10	15	none
4411.19.000		5	5	10	15	none
4411.21.000		5	5	10	15	none
4411.29.000		5	5	10	15	none
4411.31.000		5	5	10	15	none
4411.39.000		5	5	10	15	none
4411.91.000		5	5	10	15	none
4411.99.000		5	5	10	15	none
4412	Veneered panel	10	10	10	20	none
4413	Densified wood	10	10	10	20	none
4414	Wooden frames	10	10	10	20	none
4415	Packing cases/pallets	10	10	10	20	none

Country: Indonesia Report Year: 2002	Product Description 1/	Tariff Current Year	Tariff Following Year	Other Import Taxes/Fees	Total Cost of Import	Export Tax
4417	Tool/handles	10	10	10	20	none
4417.00.000		10	10	10	20	none
4418	Builders' joinery	10	10	10	20	none
4419	Wooden tableware	10	10	10	20	none
4420	Jewellery cases	10	10	10	20	none
4421	Oth. Wooden articles	0-10	10	10	10-20	none
4421.10.000		10	10	10	20	none
4421.90.100		10	10	10	20	none
4421.90.200		10	10	10	20	none
4421.90.300		10	10	10	20	none
4421.90.400		10	10	10	20	none
4421.90.500		10	10	10	20	none
4421.90.600		10	10	10	20	none
4421.90.700		0	0	10	10	none
4421.90.900		10	10	10	20	none
4422	none	none	none	none	none	none
4423	none	none	none	none	none	none
4424	none	none	none	none	none	none
4425	none	none	none	none	none	none
Pre-fabricated Houses, a subsection under chapter 96						
9406		20	20	10	30	none

1/ Insert additional lines for Commodity tariff identification should tariffs vary within the four-digit designation.
Source: Ministry of Finance Decree No. 567/KMK.017/1999 (Dec. 31, 1999); No. 570/KMK.01/1999 (Dec. 31, 1999), and Indonesia Customs Tariff, 2001 (December 2000).

Import duties remain the same as previous year. Until the new proposed export tariff of 10 percent is approved and announced, the 1999 export tariffs for wood products remain valid at 15 percent.

Table 3: Strategic Indicator: Wood Products Subsidies

Country: Indonesia Year of Report: 2002	Previous Calendar Year	Current Calendar Year	Following Calendar Year
Total Solid Wood Export Subsidy Outlay ($US million)	none	none	none
Is there a ban on the export of logs, lumber, or veneer? If yes, which?	no	yes, for logs	yes, for logs
Are there export taxes (yes/no)? 1/	yes	yes	yes
If yes, for which products? (Identify export tax level in tariff table)	CH. 4403/4404/ 4406/4407/4408	CH. 4404/4406/ 4407/4408	CH. 4404/4406/ 4407/4408
Source(s) of Export Subsidy Information	Ministry of Industry and Trade		
Total Wood Production Subsidy Outlay ($US million)	None	None	None
Are there any programs favoring the development of commercial forestry?	Reforestation Fund & Presidential Instruction (INPRES)		
If yes, Post best estimate of scope (thousands of hectares)	250	250	250
If yes, Post's best estimate of financial outlay ($US million)			
Source(s) of Production Subsidy Information	Ministry of Forestry and Plantation		
Does the country support export expansion activities similar to the Cooperator Program?	no	no	no
--Which country markets are targeted?	-	-	-
--Which products are targeted?	-	-	-
Are there significant wood products export expansion activities at the provincial or regional level?	no	no	no
--If yes, identify key players	-	-	-
--If yes, identify key market segments	-	-	-
--If yes, identify key country markets	-	-	-
--If yes, identify key products	-	-	-
--Post's estimate for combined outlay ($US million)	-	-	-
Source(s) of Provincial/Regional Support Information	None	None	None
Are there other wood products export expansion activities? If yes, describe in report.	no	no	no

Source: Various sources.

Table 4: PSD Hardwood Plywood

PSD Table						
Country:	Indonesia				Unit:	1,000 CUM
Commodity:	Hardwood Plywood					
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	8000	7300	7500	7300	0	7200
Imports	0	0	0	0	0	0
TOTAL SUPPLY	8000	7300	7500	7300	0	7200
Exports	6973	6336	6500	6500	0	6300
Domestic Consumption	1027	964	1000	800	0	900
TOTAL DISTRIBUTION	8000	7300	7500	7300	0	7200

Source:Apkindo - Based on Official Trade Data, Processed by FAS/Jakarta.

Table 5: Export Trade Matrix: Hardwood Plywood

Export Trade Matrix				
Country:	Indonesia		Units:1,000 CUM	
Commodity:	Hardwood Plywood			
Time period:	Jan-Dec			Jan-Dec
	2000			2001
U.S.	729		U.S.	698
Others			Others	
Japan	2,608		Japan	2,359
Middle East (Trad)	694		Middle East (Trad)	658
South Korea	555		South Korea	600
Continental	523		Continental	505
Taiwan	467		Taiwan	318
PRC	419		UK/Ireland	285
Hong Kong	237		PRC	276
UK/Ireland	232		Other Mid. East	195
Other Mid. East	200		Hong Kong	176
Singapore	124		Singapore	103
Total for Others	6,059		Total for Others	5,475
Others not listed	185		Others not listed	163
Grand Total	6,973		Grand Total	6,336
Source: Indonesian Wood Panel Association (APKINDO). Note: USA figures including export to Canada and Mexico.				

Table 6: PSD Tropical Hardwood Lumber

PSD Table						
Country:	Indonesia				Unit:	1000 CUM
Commodity:	Tropical Hardwood Lumber					
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	6400	6400	6500	6500	0	6250
Imports	0	0	0	0	0	0
TOTAL SUPPLY	6400	6400	6500	6500	0	6250
Exports	0	0	0	0	0	0
Domestic Consumption	6400	6400	6500	6500	0	6250
TOTAL DISTRIBUTION	6400	6400	6500	6500	0	6250

Table 7: PSD Tropical Hardwood Logs

PSD Table						
Country:	Indonesia				Unit:	1,000 CUM
Commodity:	Tropical Hardwood Logs					
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Production	26500	26500	26500	26500	0	25000
Imports	0	0	0	0	0	0
TOTAL SUPPLY	26500	26500	26500	26500	0	25000
Exports	0	0	0	0	0	0
Domestic Consumption	26500	26500	26500	26500	0	25000
TOTAL DISTRIBUTION	26500	26500	26500	26500	0	25000

No imports and exports of tropical hardwood logs (covers by HS code 4403.31 - 4403.35) reported by the Central Statistics Agency (CBS).

Table 8: Check Prices of Export Commodities (FOB)
Decree of the Directorate General of International Trade, Ministry of Industry and Trade
No. 121/DJPLN/III/2002 - Dated: March 28, 2002
Effective: April 1 through June 30, 2002

Attachment 2			
HS Codes	Description of Goods	Check Prices US$	Unit CUM/Ton
I. Sawn Timber including Sleepers and Veneer			
4406	Sandalwood group	8,000.00	Ton
4407.99.110/120	Ebony wood group	6,000.00	CUM
4407.99.210/290			
4407.99.300/310			
4407.99.911/912			
4407.99.991/992			
4408			
4406	Other Fancy Wood	1,000.00	CUM
4407			
4408			
4406	Teak Wood	1,000.00	CUM
4407.29.110			
4407.29.210			
4407.29.310			
4407.29.910			
4408			
4406	Group of Meranti	450.00	CUM
4407.26.110			
4407.26.210			
4407.26.310			
4407.26.910			
4408			

HS Codes	Description of Goods	Check Prices US$	Unit CUM/Ton
4406	Mixed Forest Wood Groups	300.00	CUM
4407			
4408			
4406	Rubber Wood	200.00	CUM
4407.99.140			
4407.99.230			
4408.99.914			
4408			
II. Split Stems			
4404.20.210	Sandalwood	8,000.00	Ton
4404.20.210	Ebony	6,000.00	CUM
4404.20.220	Other Fancy Wood	1,000.00	CUM
4404.20.220	Teak Wood	1,000.00	CUM
4404.20.230/240	Meranti Group	400.00	CUM
4404.20.240	Mixed Forest Wood	275.00	CUM
4404.20.230	Rubber Wood	200.00	CUM
III. Wood Poles, including Electricity/Telephone Poles			
4404.20.210	Sandalwood group	8,000.00	Ton
4404.20.210	Ebony wood group	6,000.00	CUM
4404.20.220	Other Fancy Wood	1,000.00	CUM
4404.20.220	Teak Wood	1,000.00	CUM
4404.20.230/240	Meranti Group	200.00	CUM
4404.20.240	Mixed Forest Wood	160.00	CUM
4404.20.230	Rubber Wood	120.00	CUM
Source: Directorate of Agriculture Product Export, Ministry of Industry and Trade.			

Table 9: Production of Logs by Type of Logs (in CUM)
(1997 - 1999)

Type of Logs		1997	1998	1999*)
Local Name	Latin Name			
Agathis	Agathis	105,446	53,634	64,571
Bakau	Rhizopora spp.	557,937	379,071	321,887
Bangkirai	Shorea lalvifolia	141,629	169,885	220,655
Benuang	Octomeles sumatrana Miq	83,482	31,302	44,482
Damar	Shorea spp.	30,096	14,430	15,638
Duabanga	Duabanga molucana BI	87,809	26,237	84,761
Indah	Fancy Wood	235,430	169,335	183,512
Jelutung	Dyera spp	125,189	75,203	44,801
Kapur	Dryobalanops spp.	555,502	295,275	483,462
Kruing	Dipterocarpus spp.	1,465,828	932,468	1,061,840
Meranti	Shorea spp.	11,371,366	7,316,142	7,928,673
Mersawa	Anisoptera spp.	197,151	61,324	69,511
Nyatoh	Palaquium spp.	183,159	67,678	73,344
Palapi	Terrictia spp.	142,856	25,208	96,427
Ramin	Gonystylus bancanus Kurz	489,289	292,176	371,984
Resak	Vatica spp	50,023	14,603	35,865
Other		2,957,357	1,656,329	1,411,753
Mixed Forest Wood		5,170,878	2,494,102	2,310,624
Indonesia		23,950,427	14,074,402	14,823,790

Source: Central Statistics Agency (BPS).
Note: *) Estimates Figure

Table 10: Production of Logs by Province (in CUM)
(1998/99 - 2000/2001)

No.	Province	1998/1999	1999/2000	2000*)
1	Sp.Terr. of Aceh	841,121	83,528	34,800
2	North Sumatra	1,295,046	1,452,247	732,488
3	West Sumatra	280,355	341,616	28,811
4	Riau	1,307,654	4,882,514	2,258,163
5	Jambi	482,080	1,551,598	724,005
6	Bengkulu	29,514	48,860	14,556
7	South Sumatra	285,912	436,083	1,979,720
8	Lampung	9,313	9,975	27,500
9	West Java	0	0	0
10	Sp.Terr. of Jakarta	0	32	0
11	Central Java	0	14,841	0
12	Sp.Terr. of Yogyakarta	0	0	130,988
13	East Java	0	402,942	0
14	Bali	511	1,486	34
15	West Nusa Tenggara	51,003	8,265	58,429
16	East Nusa Tenggara	256	520	0
18	West Kalimantan	1,368,025	1,033,666	244,477
19	Central Kalimantan	4,214,512	4,198,990	1,281,432
20	South Kalimantan	351,109	298,048	236,198
21	East Kalimantan	3,885,876	1,402,650	3,359,020
22	North Sulawesi	107,252	71,909	51,514
23	Central Sulawesi	184,338	316,867	139,219
24	South Sulawesi	166,807	339,081	159,561
25	S.E. Sulawesi	189,525	85,186	5,426
26	Maluku	448,068	255,532	81,224
27	Irian Jaya	1,500,985	1,492,604	739,674
	State Enterprise Perhutani	2,027,682	1,890,901	1,511,001
	TOTAL	19,026,944	20,619,942	13,798,240

Source: Forestry Statistics of Indonesia, 2000. Directorate General of Forest Production Development, Ministry of Forestry.
Note: *) April - December 2000

Table 11: Production of Lumber by Province (in CUM)
(1998/99 - 2000/2001)

No.	Province	1998/1999	1999/2000	2000*)
1	Sp.Terr. of Aceh	131,836	62,531	91,812
2	North Sumatra	56,521	51,029	67,207
3	West Sumatra	49,755	20,793	9,120
4	Riau	306,080	260,731	172,962
5	Jambi	176,193	34,886	188,271
6	Bengkulu	5,867	961	2,108
7	South Sumatra	222,926	105,546	234,517
8	Lampung	3,000	490	2,057
9	West Java	0	0	0
10	Sp.Terr. of Jakarta	0	0	0
11	Central Java	62,730	54,789	9,187
12	Sp.Terr. of Yogyakarta	0	0	0
13	East Java	660,744	177,326	11,937
14	Bali	61,149	0	507,365
15	West Nusa Tenggara	12,281	7,283	7,971
16	East Nusa Tenggara	517	0	269
18	West Kalimantan	159,767	127,101	143,255
19	Central Kalimantan	185,820	135,894	129,212
20	South Kalimantan	324,119	132,026	147,620
21	East Kalimantan	165,917	89,396	104,194
22	North Sulawesi	4,288	5,021	2,775
23	Central Sulawesi	6,456	6,989	11,414
24	South Sulawesi	33,851	18,639	0
25	S.E. Sulawesi	4,926	748,057	1,302
26	Maluku	33,876	3,496	5,773
27	Irian Jaya	38,604	17,179	1,170,535
	TOTAL	2,707,221	2,060,163	3,020,864

Source: Forestry Statistics of Indonesia, 2000. Directorate General of Forest Production Development, Ministry of Forestry.

Note: April-December 2000.

Table 12: Production of Plywood by Province (in CUM)
(1998/99 - 2000/2001)

No.	Province	1998/1999	1999/2000	2000*)
1	Sp.Terr. of Aceh	79,561	35,475	37,587
2	North Sumatra	288,749	129,100	213,695
3	West Sumatra	66,629	53,942	54,504
4	Riau	564,404	398,015	382,624
5	Jambi	659,050	339,229	428,637
6	Bengkulu	0	0	0
7	South Sumatra	146,098	63,770	83,829
8	Lampung	19,286	2,848	9,883
9	West Java	0	0	0
10	Sp.Terr. of Jakarta	0	0	0
11	Central Java	123,981	54,683	0
12	Sp.Terr. of Yogyakarta	0	0	0
13	East Java	239,520	44,782	0
14	Bali	0	0	0
15	West Nusa Tenggara	0	0	0
16	East Nusa Tenggara	0	0	0
18	West Kalimantan	1,047,722	890,905	617,138
19	Central Kalimantan	230,883	165,814	236,435
20	South Kalimantan	1,496,518	1,004,049	331,976
21	East Kalimantan	1,324,821	1,053,532	1,040,528
22	North Sulawesi	0	0	307
23	Central Sulawesi	0	0	0
24	South Sulawesi	122,529	61,155	0
25	S.E. Sulawesi	0	0	0
26	Maluku	450,114	60,074	22,090
27	Irian Jaya	294,864	254,505	251,864
	TOTAL	7,154,729	4,611,878	3,711,097

Source: Forestry Statistics of Indonesia, 2000. Directorate General of Forest Production Development, Ministry of Forestry.

Note: April - December 2000.

Table 13: Reference Prices for the Calculation of Resources Royalty Provision (PSDH)

Decree of the Minister of Industry and Trade
No. 204/MPP/Kep/6/2001 - Dated: June 25, 2001
Effective from June 25, 2001 through December 31, 2001

Description of Products	Reference Price (Rupiah)	Unit CUM/Ton
I. Logs		
a) The meranti (timber tree) and the mixed forest wood		
1. Timber originating from Region I		
(Sumatra, Kalimantan, Sulawesi, Maluku)		
a. Meranti group	640,000.00	CUM
b. Mixed Forest group	360,000.00	CUM
2. Timber originating from Region II		
(Irian Jaya, Nusa Tenggara, Bali, East Timor)		
a. Meranti group	530,000.00	CUM
b. Mixed Forest group	265,000.00	CUM
b) Other than the meranti & mixed forest groups		
1. The fancy wood group, incl. Sonokeling, Ramin & Ulin	905,000.00	CUM
2. The Torem wood (Region I)	360,000.00	CUM
3. The Torem wood (Region II)	265,000.00	CUM
c) Groups of other types of timber		
1. Groups of other types of timber (Region I)	640,000.00	CUM
[Mentaos (Wrightia javanica DC), Kisereh (Cinnamomum		
parthenoxylon), Perupuk (Lophopetalum spp),		
Giam (Cotylelobium spp), Balangeran (Shore balangeran		
Burck), Kulim (Scorodocarpus bprmeemsos Becc)]		
2. Groups of other types of timber (Region II)	530,000.00	CUM
[Mentaos (Wrightia javanica DC), Kisereh (Cinnamomum		
parthenoxylon), Perupuk (Lophopetalum spp),		
Giam (Cotylelobium spp), Balangeran (Shore balangeran		
Burck), Kulim (Scorodocarpus bprmeemsos Becc)]		

II. Logs of small diameters (not applicable to groups 1.b.1. and 1.c.)		
a. Logs with diameter < 30 cm	204,000.00	Ton
b. Palisades	10,200.00	Piece
c. Fish-trapping stakes and piles	32,200.00	Piece
d. Beams for flat-car rails	127,200.00	Piece
e. Charcoal of:		
- Mangrove and Meranti	320,000.00	Ton
- Mixed Forest wood	150,800.00	Ton
f. Fire wood	15,000.00	SM
g. Teakwood stump	278,800.00	Ton
III. Logging waste	204,000.00	Ton
IV. Chip raw materials (BBS) shall be logs with small	204,000.00	CUM
diameters which shall be processed into chips		
V. Other Assortment Wood		
1. Yellow wood	494,000.00	Ton
2. Ebony wood	6,000,000.00	Ton
3. Teak wood:		
- Diameter of 30 cm and up	764,000.00	CUM
- Diameter of 20 cm -- 29 cm	485,000.00	CUM
- Diameter of <19 cm	192,000.00	CUM
4. Mangrove wood	151,000.00	Ton
5. Pine wood	127,200.00	Ton
6. Yellow sandalwood:		
- Part of yellow sandalwood with hard core in all shape	7,000,000.00	Ton
- softwood (between bark and xylem) of yellow sandalwood in all shapes	700,000.00	Ton

VI. Wood from timber estate/plantation (HTI)		
a. Pine	42,400.00	Ton
b. Acacia	27,800.00	Ton
c. Balsa	17,000.00	Ton
d. Eucalypthus	27,800.00	Ton
e. Gmelina arborca	27,000.00	Ton
f. Rubber	42,400.00	Ton
g. Sengon	17,000.00	Ton
VII. Timber from state-owned forestry company		
Perum Perhutani and Yogyakarta special region		
a. Teakwood and Sonokeling logs		
1. Diameters of 30 cm and above	744,400.00	CUM
2. Diameter of 20 cm -- 29 cm	485,000.00	CUM
3. Diameter of <19 cm	192,000.00	CUM
b. Fancy forest logs (Sonobrite, Mahogany)		
1. Diameters of 30 cm and above	384,000.00	CUM
2. Diameter of 20 cm -- 29 cm	134,000.00	CUM
3. Diameter of <19 cm	81,400.00	CUM
c. Logs of the types of pine, resin, sengon, balsa		
Eucalypthus, Jabon, Acacia mangium, rubber and		
Gmelina Arborea		
1. Diameters of 30 cm and above	134,440.00	CUM
2. Diameter of 20 cm -- 29 cm	118,000.00	CUM
3. Diameter of <19 cm	80,000.00	CUM
d. Mixed forest logs		
1. Diameters of 30 cm and above	118,000.00	CUM
2. Diameter of 20 cm -- 29 cm	80,000.00	CUM
3. Diameter of <19 cm	58,500.00	CUM
e. Rasamala	127,200.00	CUM

Note: The above Reference Prices structure remains valid according to the Circulation Letter of the Director General of Domestic Trade, Ministry of Industry and Trade No. 379/DJPLN/XII/2001 dated December 31, 2001.

Table 14: Reforestation Fee
Government Regulation No. 92/1999 - Dated: October 13, 1999
(Currently Valid until A New Regulation is Announced)

No.	Description	Unit	Tariff/Unit US$
A.	Kalimantan and Maluku Region		
	- Meranti Group	CUM	16
	- Mixed Forest Group	CUM	13
B.	Sumatera and Sulawesi Region		
	- Meranti Group	CUM	14
	- Mixed Forest Group	CUM	12
C.	Irian Jaya and Nusa Tenggara Region		
	- Meranti Group	CUM	13
	- Mixed Forest Group	CUM	10.5
D.	All (Indonesia) Region		
	1. Ebony wood	Ton	20
	2. Teak wood	CUM	16
	3. Fancy wood	CUM	18
	4. Sandalwood	Ton	18
	5. Pulp wood (Bahan Baku Serpih or BBS)	Ton	2
	6. Logging waste and other specific wood products	CUM	2
E.	Pulp wood processed in regions that has no	CUM	0
	pulp and paper mills		
F.	Pulp wood used for join research by PT. Inhutani	CUM	0
	I,II,III,IV, and V with intermediate wood chips		
	producers using portable machinaries		
G.	Logs donated for natural disaster victims and other	CUM	0
	social affairs		

Table 15: Exchange Rate Table

Exchange Rate (Rp./1US$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1998	13513	9377	8740	8211	10767	15160	13850	11700	11314	9142	7755	8100
1,999	9419	8992	8778	8632	8179	6750	6989	7736	8571	6949	7439	7161
2000	7414	7517	7598	7988	8728	8742	9055	8370	8891	9483	9524	9385
2001	9488	9914	10460	12117	11423	11436	9744	9045	9696	10358	10476	10450
2002	10383	10189	9655	9316	8785	8730						

Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.
Note: - March 2002 exchange rate is quoted for March 28, 2002
- June 2002 exchange rate is quoted for June 12, 2002
- BPS data available up to Dec 2001.

SECTION III. NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

Forest Situation/Outlook

Despite a myriad array of regulations and limitations, forestry management in Indonesia remains extremely ad-hoc, and forest conditions continue to deteriorate. Mandatory selective cutting, reforestation programs, including developing timber estates, and a log export ban have been implemented, but weak enforcement make render regulations ineffective. Illegal logging operations and log smuggling persist, and an effective policy and institutional environment has yet to be designed to effectively handle the problem. Illegal logging is estimated at 30 million CUM per year, an estimated 10.0 million CUM of which is illegally exported (Note: Production and exports from illegal cutting are not reflected in official production or trade data.). Also, forest fires have caused serious, long-term damage to the forest area. Several studies have estimated deforestation rates up to 1.6 million hectares per annum.

As a result of domestic and international pressure, as well as a sincere interest in maintaining forest resources, GOI has taken or plans to take numerous concrete steps to improve conservation and enhance forest management. This action includes a ban on log exports, taxes on forest products exports, tighter regulations on issuance of concessions, reductions in annual allowable cuts, and certification of sustainable forest production practices. In addition, the government is actively seeking support from neighboring countries to curtail illegal exports. All these actions suggest for at least the next three to five years logging and forest product output will decline. However, this forecast will ultimately hinge on the ability to effectively implement the regulations/requirements, something that GOI has yet to convincingly demonstrate. Weak enforcement and inconsistency between central and local government policies continues to lead to excessive logging and a highly unregulated forestry management regime.

Tropical hardwood lumber production is forecast to decline from 6.5 million CUM in 2002 to 6.3 million CUM in 2003 due to an expected 50 percent reduction in annual allowable cuts on areas designated as production forests. With the targeted reduction in the annual allowable cut from 12.4 million CUM in 2002 and 6.4 million CUM in 2003, additional log harvests from other sources, including the community forests and timber estates, must be undertaken to provide supplies. As supplies from the other sources are insufficient, total hardwood log production is forecast to decline to around 25.0 million CUM in 2003. The expected decline in production is less than what may be suggested by the targeted decline in allowable cuts, because great uncertainty exists regarding whether the reduction in cuts can and/or will be implemented.

Effective June 2002, as a condition for obtaining new or extensions of forest concession licenses, applicants will be required to certify that sustainable forest management practices have been implemented according to the International Tropical Timber Organization standard covering economic, social, and ecological considerations. Independent consultants will be employed to verify that concession holders have fully complied with the standards. Currently, the Minister of Forestry has approved four firms to carry out the certification. In addition, GOI intends to allow logging activities only within designated production and conversion forest areas.
As a result of these new certification requirements, it will be much more difficult to obtain or extend concessions, and it is questionable whether applicants will be able to meet the demand to extend and/or obtain new forest concessions.

In addition, as indicated above, annual allowable cutting levels will continue to be reduced every year. Furthermore, various fees (totaling around US$35 CUM) continue to be assessed on every cubic meter of logs harvested from production and conversion forest areas. These fees both hinder wood product harvests, but also create a strong incentive for illegal logging.

Unfortunately, inconsistency between regional and central government regulations and weak prosecution continue to hinder effective forest management. Excessive logging and illegal log smuggling continues unabated. (estimated at around 30.0 million CUM per year).

There is a great deal of overlap between central and local government regulations governing forestry management, and it is often unclear what body is ultimately responsible for implementing each regulation. This ambiguous policy and regulatory environment makes managing logging and reforestation operations extremely difficult. This situation has recently been exacerbated by Indonesia’s move to provide more autonomy to local governments. The regional autonomy policy, which allowed for granting smaller forest concession licenses, has contributed to illegal logging. Given the rapid deterioration of forest areas, the central government has rescinded the authority given to regional officials to issue the small-scale forest concessions. The companies that received these small-scale concessions generally lack processing facilities. Although they do not have to pay the same burdensome fees as large-scale concessionaires do (which usually are integrated industries), their logging operations are not expected to be economically viable, and doubt exists regarding their ability to meet sustainable forest management requirements.

To reduce illegal logging and to assure sufficient raw material supplies for local wood industries, log exports were banned (Joint Decree Minister of Forestry, No. 1123/KPTS-II/2001 and Minister of Industry and Trade, No. 292/MPP/KEP/10/2001) on October 8, 2001. The local industry had been calling for this action to be taken for some time, as it had always been claimed that illegal exports not only reduced the local supply of raw materials, but also allowed key competitors to obtain logs at much lower prices. For example, as indicated above, due to the numerous regulations, fees, and taxes, local users pay an estimated US$ 35/CUM more for legally cut logs compared to the prices paid by users of logs cut illegally and smuggled out of the country. However, despite several highly publicized cases of shiploads of logs being detained, the effectiveness of the ban is still open to question.

The GOI also is planning to lower the lumber export tax to 10 percent, but as of this writing, no decree had yet been announced. The value of export taxes are based on the check price levels (see Table 8), which are reviewed periodically.

Given the priority the GOI has placed on exerting greater control over forest management and use, the next three to five years holds prospects for greater regulatory consistency, implementation, and enforcement, which should lead to lower illegal logging levels and an overall decline in forest resource harvests.

Solid Wood Products Situation/Outlook

Due to a number of factors, plywood production is forecast to continue declining, falling to an expected 7.2 million CUM in 2003. Many plywood manufacturers have reportedly had to cease/reduce operations due to high costs of production, a shortage of logs, stiff competition from other suppliers, an uncertain policy setting, and low prices. Plywood prices reached a record low of US$250/CUM earlier this year, but gradually increased during the second quarter of 2002, reaching US$300/CUM by mid-year. Political instability in several parts of the country, particularly Aceh, Maluku and Irian Jaya, has contributed to the production decline. Furthermore, weak economic conditions in many importing countries (particularly Japan) has reduced demand for Indonesia’s plywood, about ninety percent of which is exported.

In response to the problems plaguing the sector, the industry taken several steps to enhance competitiveness. These include efforts to utilize logs more efficiently, shifting to more value-added products, and developing new markets. For example, some mills have installed new equipment that produces more plywood core with less waste. In addition, mills are focusing more on using the by-products of the plywood production process to make particle board and/or other products. Furthermore, to cope with the shortage of availability of domestic logs, mills are beginning to examine importing supplies, particularly from New Zealand (Pine) and Africa. Even with 15 percent import duty and prices ranging from US $70 to US $125/CUM, industry representatives feel using imported raw materials would be commercially viable. Also, several large-scale plywood producers continue to import other species, including those from the United States (mostly oak, cherry, birch), to be used as the surface layer to make higher-valued fancy plywood.

While exports are forecast to decline in 2003, domestic use is forecast to rebound, in line with expectations for improving economic conditions. Consumption is estimated at 0.8 million CUM in 2002 and is forecast to slightly increase to 0.9 million CUM in 2002 as construction sector is expected to start recovering.

Nonetheless, exports continue to remain much more important to the industry, and prospects for export led growth remain dim. Given sluggish demand from major importing countries (especially Japan), stiff competition from other producing countries, and expectations for lower production, exports are forecasted to decline from 6.5 million CUM in 2002 to around 6.3 million CUM in 2003. In addition, despite attempts to import raw materials, the plywood sector will continue to face difficulties in securing stable supplies as the regulatory environment points only to a reduction in domestic log availability. Thus, the 3-5 year outlook for Indonesia's plywood sector remains one of pessimism, with anticipated further declines in production and exports.

Trade

Continuing the declining trend of recent years, in 2001 forest product exports (logs and processed wood) amounted to around 6.7 million CUM valued at US$3.3 billion, down from US$3.6 billion in 2000. This accounted for around 6.0 percent of Indonesia's total export revenue in 2001. The value of plywood exports in 2001 reached US$1.8 billion down from US$2.0 billion in 2000. With respect to log exports, official trade data reported that log exports (temperate soft wood species, not including tropical hardwood) for 2001 increased from US$45.3 million in 2000 to US$67.8 million in 2001. Log prices as of June 2002 were ranging from Rp. 400,000/CUM (mix species) to Rp. 650,000/CUM for Meranti species. Given expectations for a more regulated forest management regime, including lower annual allowable cuts, forest product exports are expected to continue declining.

The ban of exports of logs was intended to guarantee adequate supply for local industries, prohibit illegal logging operations, and prevent logs from being smuggled out of the country. However, due to ineffective law enforcement and inconsistent policies between the central and local government regulations, the ban has reportedly only resulted in continuing illegal logging practices. An estimated 30,000 CUM of logs continue to be smuggled to neighboring countries. The export tax regime, which is based on a list of forest product "Check Prices," only makes legal exports unattractive, and contributes to smuggling. In addition, logs, whether imported or sold domestically, are subject to a 10 percent Value Added Tax.

Official Indonesia trade data shows import value of veneer (coniferous, hardwood and other woods) in 2001 reached US$ 14.5 million. Major suppliers were the United States, Japan and China with their shares of US$ 6.3 million (43.8 %), US$ 2.7 million (18.5%), and US$ 1.4 million (10.0%) respectively. Imports of veneer from the U.S. increased around 15 percent. Total import of temperate hardwood logs in 2001 reached US$ 29.8 million, dominated by temperate hardwood species from the United States valued at US$ 25.9 million or around 87 percent of the total. The value of temperate hardwood logs import increased slightly. Temperate hardwood lumber imports in 2001 valued at US$ 15.9 million down significantly from US$ 20.1 million in 2000. The United States continued to be the largest supplier of temperate hardwood lumber (27.0%), followed by China.

Marketing

Plywood exports generate around 50 percent of Indonesia's total annual forest product export value. In order to meet the challenges of competing under the difficult circumstances outlined above, the industry has proposed forming a marketing board to promote products and develop new markets. Producing more value added wood products such as fancy plywood, block board/particle board, and furniture has been a key marketing focus of the wood industry.

This area merits attention for further promotion activities by U.S. exporters. Opportunities exist for American forest products, particularly logs and/or veneer of temperate hardwoods such as oak, cherry and birch. Plywood producers and other wood products-related industries need to be introduced and updated of the availability, quality, specifications, import/shipping procedure, and the numerous applications of American temperate hardwoods.

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